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NSC review completed

REDUCTION OF EXPORT CREDIT SUBSIDIES

THE INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS

ISSUE

With the EC acceptance on June 30, 1982 of a new Arrangement on Export Credits, this is no longer a contentious issue. There is nothing the EC wants from us right now. Indeed, this was never a U.S.-European problem. Generally, the Europeans have shared our view that official export credit subsidies are wasteful and should be reduced. Typically, only France opposed reductions of these subsidies. The EC's acceptance was the result of a hard-won consensus within the EC, with other countries persuading the French to cooperate.

German Economics Minister Lambsdorff personally intervened to persuade the French to accept the Arrangement Chairman's (Axel Wallen of Sweden) final compromise. The French sought to raise their negotiating leverage by touting this as a U.S.-EC problem. It was not.

RATIONALE FOR U.S. ACTION

- The United States, along with 20 of the other 21 Arrangement Participants, views export credit subsidies as wasteful and trade-distorting and seeks a negotiated reduction of this practice. Exports should be differentiated by product price and quality and not by the level of official financing subsidy. The subsidies are not a long-term solution for domestic problems such as unemployment and inflation. When matched by foreign competitors, nothing is achieved to alter the competitive balance.
- While the compromise did not eliminate subsidies, the U.S. Government accepted the compromise proposal in an effort to keep the Arrangement alive. We have no need to feel defensive on the export credit issue, as we have bent over backwards to accommodate the French. Specifically, for the French we:
 1. Accepted a single subsidized interest rate for all currencies, while the United States strives for market rates differentiated by currency;

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2. Accepted much smaller increases to the minimum interest rate matrix than we and the other Participants had originally agreed to. All Participants but the EC (whose acceptance was barred by France) agreed to increases which would have raised the matrix from a weighted average of 10.20 percent to 11.60 percent. The compromise before us now increases the weighted average to 10.95 percent effective immediately and to 11.40 percent on January 1, 1983. (The weighted average is based on Eximbank's portfolio.)
3. Accepted a six month delay -- at French insistence -- in the effective date of these interest rate increases for the countries in which we are competing most strongly, e.g., Brazil, Korea, Mexico. (In practical terms, the new rates will not uniformly be in effect for one year since credit commitments, valid for six months, extended prior to January 1, 1983 will be the rates in effect before that date.)
4. Did not take the EC to task on its conditional acceptance of the new Arrangement terms. Rather, we are seeking resolution of these loose ends through further discussion. This "salami" approach has been typical of the French negotiating style with regard to export credits.

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